RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Sept. 29, 1993 **LETTER 1131**

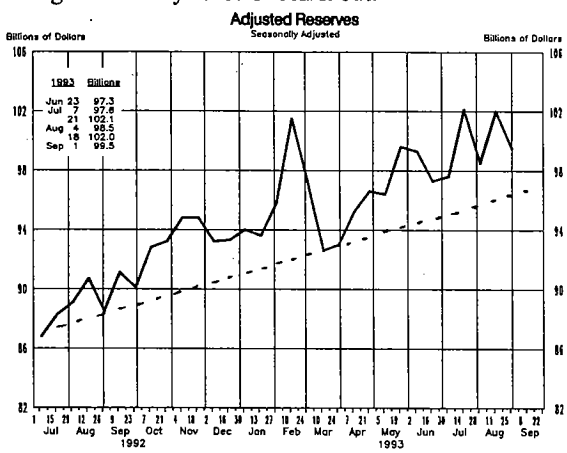
Sept. 17 DJIA 3613.25; PTI 3947; A-D Ratio -2.92
Sept. 24 DJIA 3543.11; PTI 3953; A-D Ratio -3.00
Dow Yield: 2.88%; Dow Price/Earnings: 42.8
Dow 200-day MA: 3455; Dow 30-day MA: 3610
Dow Times Book Value: 3.09; PTI 89-day MA: 3891
Percentage of Undervalued Blue-chips: 7%
Low Risk Buy Index: +71

THANKS: I've received literally hundreds of "get well" letters from subscribers, and it really hurts me not to be able to answer each and every one of your letters. Many letters are long and detailed (often from heart patients), with helpful advice, good wishes and prayers. Thanks, and thanks again.

For some strange reason it all reminds me of the time I was having lunch alone in a little deli on Madison Avenue at 64th Street in NYC. I had just finished a huge turkey sandwich, and I turned to my waitress (a stern and rather intimidating Jewish mom type) and asked, "Great sandwich, now what's for dessert?" She scowled, "You've eaten enough, you don't need any dessert." With that she handed me the bill and trotted off to another table.

THE PICTURE: Can anyone anywhere figure out what's really happening here in 1993? I'll try.

The economy: The Fed continues its battle to re-inflate. Fed holdings of government securities has reached another record high -- and over the past three months the M-1 money supply has exploded at a 16.3% annual rate. Are all those massive reserves the Fed has been pumping into the banks starting to "catch"? Maybe. Last week the M-2 money supply surged by $12.7 billion. That's the biggest number in quite a while. The chart below (courtesy of the *St. Louis Fed*) shows Adjusted Monetary Reserves continuing to head skyward. Check it out.



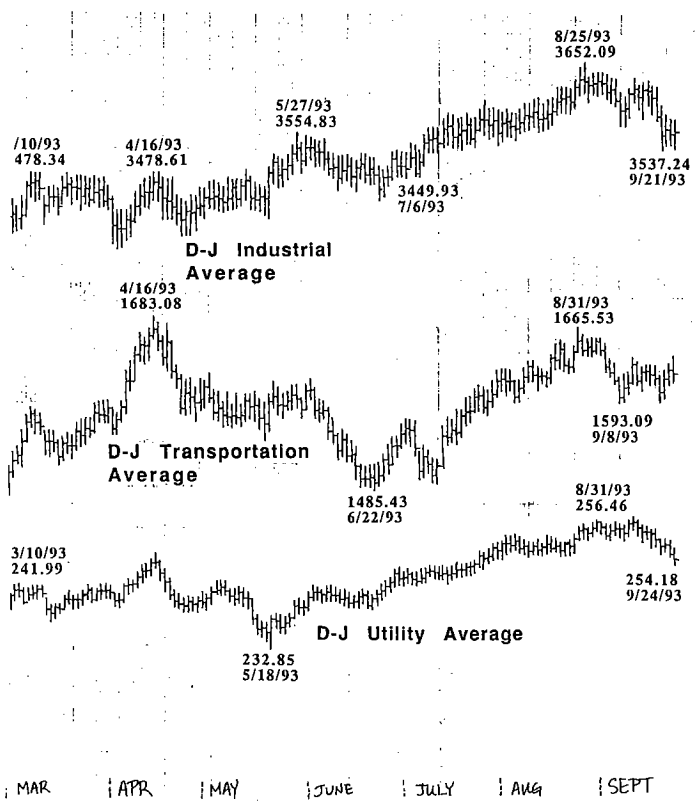
Next, according to the Sept. 17 *WSJ* the banks are starting to make real estate loans again. And, of course, increasing loans translate into a rising money supply. I don't know whether all this means that the economy is starting to expand again -- or whether the latest figures indicate just a bounce, a bounce occurring within an extended period of economic stagnation. My best bet -- we're probably heading into a period of stagflation, with a still-sluggish economy, continuing high unemployment, but with inflation picking up (with what the Fed has done over the last two years, it would be amazing if inflation didn't pick up). By the way, Columbia University's inflation model (a leading indicator of inflation) has recently risen to a 31-month high.

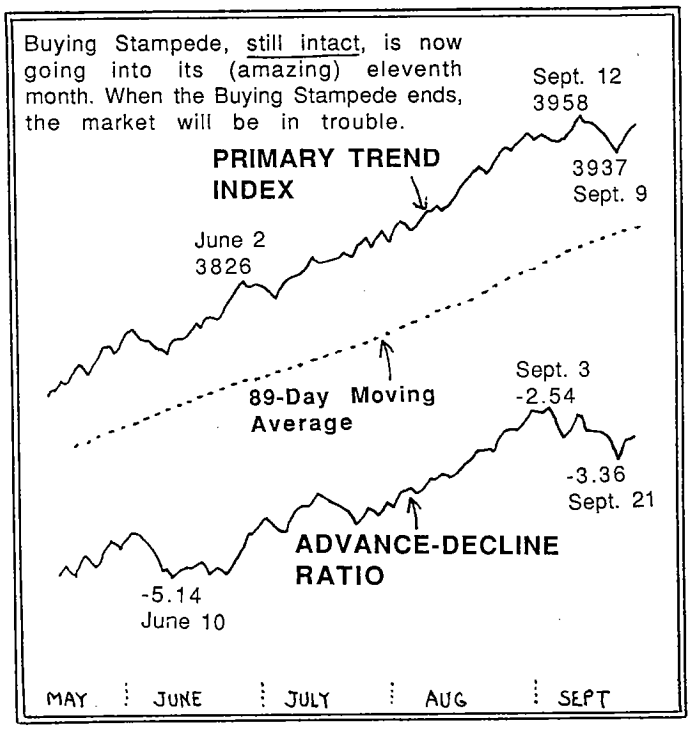
To be honest -- nobody knows really what's happening in an economy loaded with debt, an economy swimming in bank liquidity, an economy being battered by a President who comes up with more spend and tax ideas than the average businessman can even comprehend. Let me put it this way -- businessmen are very, very nervous about Clinton, about his tax program and about his new health program. And above all, the average American is worried about his job (meaning, does he still have a job?). The lay-off statistics are relentless, with each week bringing news of additional thousands of pink slips.

The Bond Market: I said in the last Letter that I believed the bond market was about at the topping-out phase. I still feel that way. The long bond broke temporarily below the 6% rate level, then pushed up above 6% almost immediately. My McClellan index (based on advances and declines on the NY Bond Exchange) turned bearish last week. It may be that the picnic in bonds is about over.

It's the long bond that we'll watch, because that's the area that is most difficult for the Fed to manipulate. You can be sure the Fed doesn't want interest rates to climb here. If the long bond continues to slide, watch for the Fed to step up their buying of Treasuries in an effort to thwart the markets. When the Fed buys Treasury paper, of course, this creates additional deposits at the banks, and that in turn increases the potential money supply -- and it's inflationary.

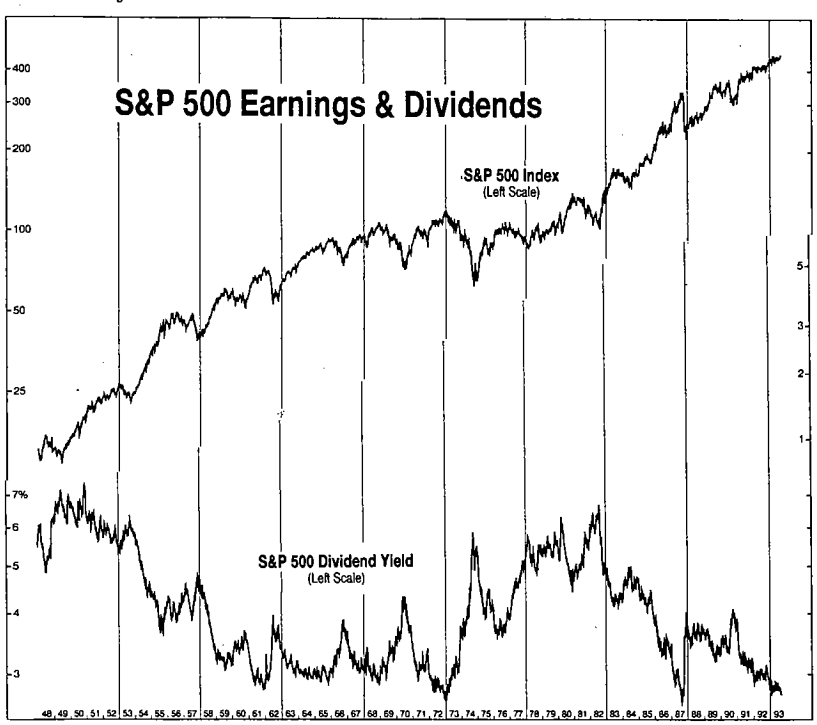
The Stock Market: In the last Letter I again drew attention to the major non-confirmation in the Averages. Despite a series of new highs in the Dow (Dow high was 3652.09, August 25), the Transports never bettered their high of **1683.08** set way back on

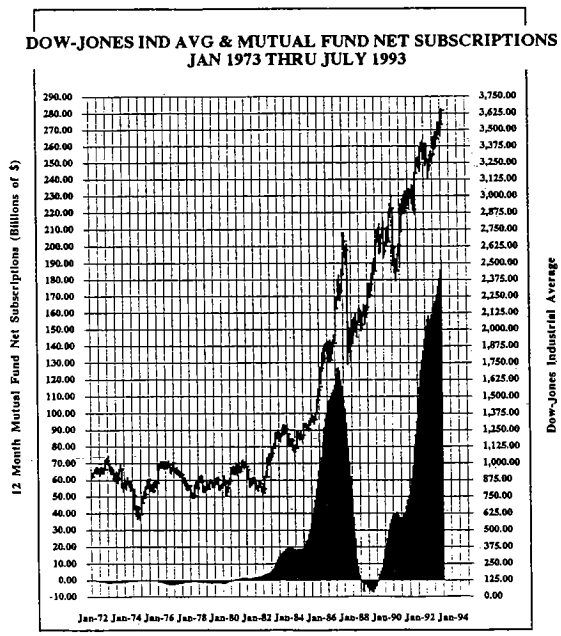




April 16. That non-confirmation still stands. Nobody seems to have noticed it or at least nobody seems to have taken it seriously. But I do. If, for the sake of argument, a primary bear market were to start here in 1993, market historians would say, "Oh sure, it was obvious. There was a blatant non-confirmation in the Averages. Anyone who got caught in the bear market must have been asleep. How could they have missed it?"

The stock market has been "churning" all year, with the Dow heading higher while the breadth statistics remained ominously even (in other words, about as many declines as advances). The deterioration has been remarkably subtle, even sneaky. Sneaky in that sloppy market action didn't seem to worry anyone. Then, following the August 25 record high, the Dow started to decline. But even as I write, the decline is accepted as "healthy" and "long overdue." Maybe so, but we do have a major non-confirmation in a very overvalued market, a market loaded with millions of amateur "investors" who have no idea what a bear market looks or feels like. We'll just watch.




DOW-JONES IND AVG & MUTUAL FUND NET SUBSCRIPTIONS - JAN 1973 THRU JULY 1993
12 Month Mutual Fund Net Subscriptions (Billions of $)
Dow-Jones Industrial Average

In the meantime, my Primary Trend Index has started to slide. Also, a downward zig-zag has formed in the advance-decline ratio (see chart at left). Nothing decisively bearish in either indicator yet, but this is a chart we will watch carefully.

From the standpoint of valuation, the stock market continues to be outrageously overpriced. The Dow is currently paying out $101.77 in dividends, but it's only earning $82.78. In the last Letter I included a chart showing that the price/earnings ratio for the S&P was in the danger zone. In this Letter, the spotlight will be on yields. Unfortunately, the yield picture is just as bad as the price/earnings picture, probably worse.

On the bottom left of this page, you will see a chart of the S&P 500 and its dividend yield going back to the late '40s. Note that each time the yield has dropped substantially below 3% (which is where it is now) that was the prescription for trouble. A very low yield doesn't pin-point where or when the trouble begins, but it does tell us when the stock market is on thin ice. Believe me, this chart is saying that the ice is thin now, very darn thin [chart courtesy of *Market Logic,* (800) 442-9000].

They say one picture is worth a thousand words. Well, above we see a picture that's shows us what's been happening in the world of a mind-boggling 4,300 mutual funds. Those black areas on the chart point to net subscriptions to those 4,300 mutual funds. There's never been anything like this. The public has been pouring into the funds at a staggering rate. In fact, I think you could label this chart, "the perfect picture of a mania." Manias don't occur very often in the stock market, but when they do, the market has a way of calming matters down. My guess is that the calming down period lies not too far ahead (chart courtesy of *Long-Term Technical Trends,* PO Box 6436, Boston, MA 03114).

International Picture: We've been looking at a broad-based global bull market, a bull market almost without precedent. The stock markets of the world have been climbing their individual "stairways to heaven," as we can see if we study the list on page 3 (list courtesy S&P's *The Outlook*). So anyway you cut it, it's been one heck of a year for international stock markets.

Devil or angel? You look at this listing of world stock indices, and you have to wonder -- is this an indication of "a new global prosperity" that lies just over the horizon? Or is it an indication of a world flight from paper currencies? Or is it simply the reflection of an international decline in interest rates? Or mmm, is it the picture of the greatest inflation in financial assets the world has ever seen -- a global stock market "bubble" of unprecedented proportions?

The bulls come up with the conventional answer. "It's easy to explain," retort the bulls. "Global recessionary tendencies and little or no inflation means that bonds are a bargain. And bargain bonds, in turn, mean low and still lower interest rates. Low interest rates are a bullish force on stocks -- thus we get rising stock markets throughout the world. It's as simple as that."

PERFORMANCE OF MAJOR STOCK MARKET INDEXES

% PRICE RISE 1993 TO DATE*

	IN U.S. $	IN LOCAL CURRENCY
AUSTRALIA	16.06%	19.97%
AUSTRIA	17.70	21.54
BELGIUM	8.58	16.05
CANADA	8.78	13.21
DENMARK	19.11	30.44
FINLAND	60.53	79.25
FRANCE	12.81	19.22
GERMANY	19.23	22.74
HONG KONG	31.32	31.45
IRELAND	29.17	49.83
ITALY	40.61	51.91
JAPAN	51.12	26.18
MALAYSIA	40.16	36.61
NETHERLANDS	21.54	25.20
NEW ZEALAND	47.39	37.08
NORWAY	29.74	35.72
SINGAPORE	24.39	21.73
SPAIN	24.69	47.54
SWEDEN	25.53	43.22
SWITZERLAND	21.94	22.33
UNITED KINGDOM	10.89	11.61
USA	6.06	6.06
EUROPE (FREE)‡	16.54	20.61
PACIFIC	47.21	26.24
EAFE	32.12	23.41
THE WORLD INDEX	20.67	16.09

When you add it all up, it really is a fascinating picture. Here we have the American public coming into the markets (mostly via mutual funds) at the utterly fantastic rate of over $20 billion a month -- $10 billion in equity funds and upwards of $10 billion in bond funds. But wait, let's keep this in mind -- the public hasn't been buying bargain bonds, they've been buying mutual funds featuring the lowest bond rates in modern history. And the public hasn't been buying bargain-basement stocks (via mutual funds). Far from it, the public's been rushing in to buy the most expensive stock and bond markets in Wall Street history.

Go figure. Maybe the best way to put the picture in perspective is to recount a bit of history. And no, I'm not writing about something I learned in a textbook. What I'm writing about next is the stock market picture as I lived it. I was there.

Following World War II, people (and I mean all of us), were worried sick about "the post-war depression that was sure to come." After all, many previous wars had been followed by depression, a lack of jobs, a worrisome picture as hundreds of thousands of service men returned home to look for jobs. Nothing seemed to shake investors' dark forebodings of things to come back in 1946 to '49.

Actually, after the WWII business was quite good and getting better. Everybody had a yard-long list of things they wanted to buy. The Dow headed up, rising to 212 in early 1946. But towards 1948-49 the economy slumped and the stock market headed down again. On June 13, 1949, the Dow touched a shocking low of 161.60. "This is it," we thought, "This is the market's way of signaling the depression we have all been waiting for." In retrospect we now know that in mid-1949 the US was on the verge of a massive bull market boom, a boom that was to last well into the '60s. As far as stocks were concerned, that June 13 Dow low was super-bargain-time. The June 13, 1949 Dow low of 161.60 was never seen again.

Now, let's come back to the present. Here we are with a sluggish economy, an economy that, so far, has refused to react to massive (and I mean MASSIVE) Fed stimulation. It's an economy loaded with debt and facing probably the toughest global competition in its history. And with it all, investors here in 1993 remain stubbornly, steadfastly, unyieldingly bullish. It's true, of course, that people are worried about lay-offs and higher taxes and cheap foreign labor and a dozen other items.

Yes, I can recite a long list of items that people worry about, but here's the bottom line -- it's what people do with their money that counts. And what they're doing is spending it -- on stocks and bonds.

Consider this -- the public has been putting roughly a billion dollars a day into mutual funds. You don't do that unless you feel some kind of confidence. You don't do it unless you believe that you can come out with at least as much as you put in. The statistics are really mind-blowing. There are now 4,300 mutual funds. Three years ago the total amount of money in the mutual funds stood at $1 trillion. At the end of last July it was up to $1.85 trillion. Currently, the total amount is at $2 trillion.

So there's the paradox -- in 1949, with the Dow yielding nearly 7%, with stocks on what probably was the greatest bargain counter of the century (except for 1932), the public was scared stiff and wouldn't go near the stock market.

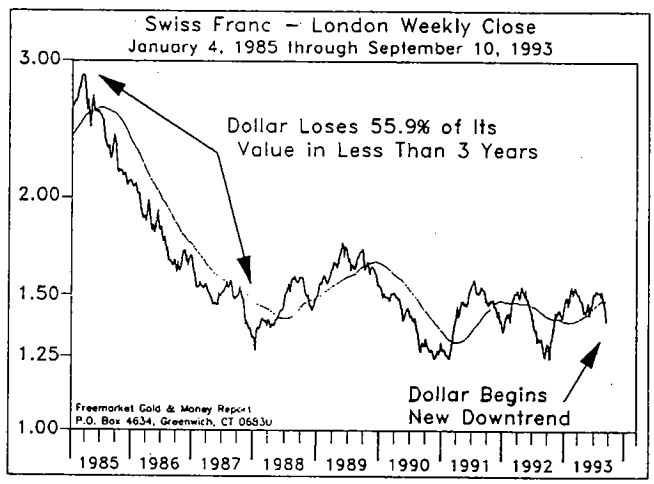
Here in 1993, with stocks more expensive than at any time in the century, the public is pouring into the stock market in numbers and with quantities that would not have been believed even five years ago. States Eric Miller, chief investment officer at Donaldson, Lufkin & Jenrette, "The amount of money coming into mutual funds is mind-boggling."

Inflation/Deflation: I've been writing in Letter after Letter that it's now a case of "Inflate or Die." The ratio of debt to Gross Domestic Product for almost all nations is sky-high. In other words, nations are swimming in debt. And when you're up to your neck in debt, you can not take deflation, you simply can not survive deflation.

The answer, the solution to the debt predicament is as American as apple pie (or to put it in more modern terms, it's as American as violence). The answer to debt is that you "sterilize" your debt. How do you do that? You pay the debt off in ever-cheapening paper money. The US has been doing that for decades. We're master of inflation and declining purchasing power for the dollar.

"But we'll never pay off the national debt," cry the doubters. "Sure we will," reply the politicians, "but we'll pay it off with freshly-minted legal tender paper dollars. We'll pay it off with dollars that possess such lowered purchasing power you won't believe it. But the debts will be serviced and they'll be paid off, we guarantee it."

This chart shows what's happened to the dollar in terms of one of the world's strongest and "most conservative" currencies, the Swiss franc. The chart is self-explanatory. Study it carefully, please (chart courtesy of *Gold & Money Report*, PO Box 4634, Greenwich, CT 06830).



MONEY, MONEY: Now I want to talk a little more about money. And today when you talk about money, you have to talk about money around the world. I guess you've heard this a few hundred times, but today we're living in a GLOBAL world. As an investor, you can no longer think in terms of dollars. The "new way," the correct way is to think of your assets in terms of international buying power.

Let me put it this way. When the dollar is weak against the D-mark or the pound or the Swiss or French franc, then dollar holders are losing international buying power. But let's say the dollar is strong against the yen. If so then US exporters sweat a bit, and buyers of Japanese goods feel better. Today we live in a new world of wildly

fluctuating "floating" currencies. It's a world where the strongest producing nation with the healthiest economy and with the most conservative central bank and the highest interest rates also has the strongest currency.

The currency markets have become the biggest markets in the world. Nothing else even comes close. Currencies are now traded to the tune of a trillion dollars a day (and let's include the night, since currencies trade in the interbank market on a 24-hour basis). You may sleep, but the currencies never do.

Furthermore, if a nation's economy turns weak, if it has to lower its interest rates to jazz up its economy, you'll see the results immediately in that nation's currency. Every economic and political event is reflected in a nation's currency. And almost every large investor and certainly every major corporation (those who do any importing or exporting) have to deal with the problem of volatile currencies.

Today we have an ongoing war of competing currencies as first one nation, then the next, moves to change the international value of its money either up or down.

If you want to export, one major advantage is to have a "cheap" currency. Japan is well aware of this, since its "expensive" yen has hurt its export profits. The high-priced yen made Japan's exports expensive for foreign buyers, and as a result Japanese manufacturers have had to forego profits in their desire to retain market share. At present, the Japanese have a problem -- they continue to export, but their domestic recession has cut way back on their imports. The result -- a huge surplus in their trade balance. At present the Japanese government is attempting to fire up its slumping economy via increased government spending and lower interest rates. And of course they're opting for a lower yen vs. the dollar (on Sept. 20 the Japanese cut their discount rate to a record low of 1.75%, which, of course, hit the yen hard).

All this presents problems for the US investor. Problems because US investors are not trained to think in terms of floating currencies. Nor are US investors trained to trade the currencies. And I wonder, what can I tell my subscribers, or more important -- how can I help my subscribers to deal with the volatile, fluctuating world currency situation?

In the end, my personal opinion is that the answer will be gold. In the dog-eat-dog, competitive world of the future, I see more and more competitive currency devaluations. Already we have seen the French and the British and the Irish drop out of the European Rate Mechanism. We have seen currency after currency devalue. Now the ERM bands (or should we call them bungee cords) have widened to 15% on each side of the German D-mark. Bands as wide as 15% are meaningless. The ERM is a lost cause, it's fallen apart.

In the final analysis, ALL paper (fiat) money will be measured against GOLD. That, by the way, is why politicians and central banks hate the yellow metal. Gold is the only real money, and gold is the ultimate standard, the final measure of money.

Let's look at a nation's problem. The nation wants to devalue its currency, but it doesn't want to upset those investors who are holding its paper. When you devalue your currency, it requires more of that devalued currency to buy gold. Gold is the barometer, and when it requires more of your paper money to buy an ounce of gold, all the world knows about it. The wish -- the desire -- the dream of every politician, is to get rid of the barometer. Denigrate gold, hate it, talk it down.

Against the current blizzard of newly-created paper money, you have real money, money that must be dug out of the ground at great cost in both capital and labor. The supply and production of gold is finite. But the production of paper money is potentially infinite (as those who have lived through the great inflations of the past can testify).

That's why I recommend that all my subscribers hold some amount of gold or gold shares or both. In the end real money must and will win over fantasy (paper) money. And in the new world that we live in, the demand for credit will become insatiable.

Now this is important -- all debt is ultimately "settled." Debt can be paid off, debt can be reneged on (bankruptcy) or debt can be forgiven (as the US did for Egypt). But it is axiomatic that the greater the issuance of debt by a government, the greater the ultimate degradation of the currency that the debt is denominated in.

The US national debt is now moving relentlessly towards the five trillion dollar level. I don't doubt that the debt will be paid off. But it will be paid off year after year in junk dollars, dollars that are almost guaranteed to be losing purchasing power.

Furthermore, with America's rising population, with a nation that is adding debt at the rate of a billion dollars a day, it's not a question of whether it will take more dollars to buy an ounce of gold, it's simply a question of timing. It's a question of what month or what year it will take 400 dollars to buy an ounce of gold, then 450, then 500 and up.

The alternative to inflation is deflation and depression. If the US and the world moves in that direction, every central bank on earth will fight it with the production of more credits, debts and more paper money.

Can an increasing flood of paper money turn around the forces of deflation and recession? I honestly don't know. But either way, boom or depression, gold is calculated to win.

INVESTMENT POSITION: There are theories and opinions. And then there is reality. This box deals with reality, and therefore the bull is still in the box. I can give you a dozen reasons why this market looks dangerous, but the reality is that I don't have any decisive or definite reasons to yank the bull out of the box -- yet.

That's been the story all year, and it's still the story. The public is throwing billions of dollars into the market, because rates are "ridiculously low, and I don't know what else to do with my money." Not terribly intelligent, but it's the way most of America is thinking.

Veteran market people, sophisticated investors, are usually the first to admit that they are just a bit puzzled. Many of them adhere to the old adage, "When in doubt, stay out." I often operate on that thesis. And this is one of those times. Or to be more honest, I'll say that I am somewhat diversified. Very few common stocks except gold stocks, some bonds (mostly bought years ago), but largely cash.

I'm in what I call "the waiting mode." Waiting for what? Waiting for some decisive trends to surface. So far, I don't see them. I think gold is in the early stages of a bull market, I think stocks and bonds are in the late stages of a bull market, and I think I'll just wait a while. They say that some investors demand a return on their capital and others just want their capital returned. At the moment, put me in the second group.

NOTES & QUOTES: First, let me get this off my mind. Each day I get about a dozen letters (sometimes a lot more), and many of these letters (not all by any means) want personal advice. I can't give personal advice. It's beyond what I offer, and from the standpoint of energy, I don't have enough of it to give personal advice. Furthermore, it would be presumptuous of me to play the Big Guru, offering answers to all questions. Each subscriber has a different psychological make-up, each has different assets, and each of you has a different tolerance for frustration.

People ask me how far gold can go down, how far it can go up, are bonds a buy or a sell, do I really think stocks are expensive (c'mon, Elaine Gaz. thinks they're still reasonable). Subscribers ask how low interest rates can go, which gold options to buy, is Soros worth listening to, and on and on. Honestly, I could spend all day answering these letters. But if I did that, I'd have to spend most of the night writing Dow Theory Letters (assuming I had the energy and could survive on three hours of sleep).

So send me your letters (I love getting them), and send me info, personal stories and anything else you have to offer. But please, don't expect me to answer all your letters, and if it's personal advice you need, forgive me, I can't provide it.

Finally, I spend a LOT of time reading and just thinking -- and also talking to "genius" friends about the markets. In fact, in a strange way the markets are never off my mind. This is a lonely business. To be successful or even partially successful you have to be able to think alone. You also have to listen to some of the best minds in the nation -- and then be able to say, "Interesting, but I think this guy is wrong."

A good friend called a few days ago and said, "How have you stood the strain of writing a Letter every two weeks for the last thirty-five years without ever skipping a single Letter?" I answered, "Well, first, you have to stay sane. To do that, I had to develop a philosophy. And it goes like this -- I offer subscribers my very best. That's all I offer. My best is pretty good at times and lousy at other times -- but good or bad it's always my best. I can't offer any more than that, and any subscriber not satisfied with my best is free to cancel. No, I don't offer 'the ultimate answer' to the markets. Nobody can (although a lot try)."

That's my philosophy, and it's kept me going. What's that, you want something "better than Richard Russell's best?" You know what -- I don't blame you. Go out and find it. The truth -- I've spent 40 years looking for the rainbow myself. And I talk to a number of brilliant people. But damn it, the brilliant people make major and costly mistakes too. It's just a very difficult business. But I look at it this way -- if it was easy I'd probably be 120 miles north writing movie scenarios or maybe running a Harley agency instead of doing what I'm doing.

Again, thanks, thanks, thanks for all those get-well letters from you subscribers. I've received an amazing number of letters from people who are on vegetarian or Pritikin-type diets, and almost to a man or woman you all rave about the results. There's no question in my mind -- a very low fat or almost fat-free diet is a winner. Also, vitamins A, C, E and other supplements are important health aids. Amazingly, again, I've received many letters from physician subscribers recommending low fat diets. Which is what I'm on. Believe me, the only fat around our house is the lemon oil we clean the furniture with. You remember that old nursery rhyme, "Jack Sprat would eat no fat, his wife would eat no lean, and so between the two, they licked the platter clean." Well, coincidentally, I just found out that Jack lived to be 104 while his poor over-weight wife died at the tender age of 39.

* *

There's a vast new industry that's just about here, and it's the wireless industry. A few years from now your telephone outlet may be a museum piece. Some call it the battle of "radio vs. copper" (copper wire, that is). Just about every big communications company today is angling to get into the new age of "wireless communication." It's already a billion dollar industry. The consulting firm of Arthur D. Little estimates that by the year 2005 the wireless industry will generate 60 million new customers. Says Peter Huber, senior fellow at the Manhattan Institute that has studied the telephone industry: "Wireless access is already competitive with wired. If you were starting out from scratch today, you would use radio in preference to copper for much of the country." Russell comment: You can believe what was said in this paragraph. The $8 billion dollar cellular business already has 11 million subscribers, and it's adding 9,500 subscribers a day. As for copper (the metal), it's already collapsed below a price of 0.80. The commodity market is taking "wireless" very seriously.

* *

When I was a kid a guy named Barney Pressman ran a downtown discount men's store, and everyone who owned a radio used to hear his spiel about "Barneys at Seventh Avenue and Seventeenth Street." If you were a New Yorker you knew about Barneys. It got to be a joke with the high school kids. Then in the 70s Barneys turned into a men's and women's store. But it was a beautiful store -- high-tech and high-style, and it offered great clothes along with great show windows.

Comes 1993, and there's a new uptown Barneys (financed with $250 million in Japanese money and 49% owned by the Japanese). The new store opened a few weeks ago, and all New York is talking about the new Barneys on 61st and Madison. They say that Bergdorfs and Bloomingdales are scared to death because the new nine-story Barneys is great, spacious, fabulous and sure to be tough competition. Furthermore, it's the first major uptown department store to be built in NYC since 1929. I haven't seen the store, but a very sophisticated and hip couple that I've known for years told me that they were disappointed, didn't think the store was that different or great and noted that prices of merchandise were high. They think the Pressmans (who own Barneys) made a big mistake. If my friends are right, that sure isn't what you hear from the media hype. The media loves it, but I've seen them wrong too. Furthermore, Barneys sales for the first week they were open were up 50% over projections.

* *

What to think about the Administration's new health bill? Right off the bat I can say that it's staggeringly complicated. Second, nobody's sure how it's going to be financed, except that business is going to pay a big chunk of it. Third, and I'll quote the *WSJ*, "It seems that Clinton will propose the granddaddy of all entitlements, making the government ultimately responsible for the health care of every American, creating a structure that professes to decide who gets what care and at what cost, covering more Americans and somehow saving money. In the pig-in-a-poke salesmanship of the last week, he asked us to believe that introducing more government will save money by reducing paperwork . . . The sensible response would be to ask on what planet these people live." Russell comment: Since the plan is putting a lot more government into the picture, I will automatically say that I'm very skeptical. I've been reading a lot about the Clinton plan, and I noted this statement from Dr. Jeffrey Isner, cardiologist at St. Elizabeth's Hospital in Boston: "When was the last time you ever heard or saw a new government agency that was efficient, small, creative, and didn't interfere with progress?" That, I believe, is going to be the general attitude of physicians throughout the US . . . Says Sen. Phil Gramm, R-Texas: "It's frightening. The President may have achieved in one bill something that could finally bankrupt the government and destroy the greatest medical care system in the history of the world. We're back in the old game of promising stuff we can't deliver."

* *

American Airlines -- 5,000; US West -- 9,000; R.J. Reynolds -- up to 1,000; DuPont -- 4,500; Cigna -- up to 1,000. That's a partial list of projected layoffs announced last week. Then we learn that half of Europe's largest corporations plan to cut their work forces in the next two years. I'll repeat what I've been saying for months -- unemployment will be the "Nightmare of the Nineties." This is a result of ferocious domestic and global competition. The competition will also entail the battle for exports. And the battle for exports will entail competitive devaluations. The currencies of the world will remain highly volatile, and the direction of their purchasing power will be DOWN. In the end, only one money will hold its purchasing power -- gold.

* *

I would like ALL my subscribers to send for a 56-page pamphlet written by economist Hans Sennholz entitled, "The Great Depression, Will We Repeat it?" (*Foundation for Economic Education,* 30 South Broadway, Irvington-on-the-Hudson, NY 10533.) Price is $5.00. This is a remarkable history of the Fed, money, US policy, economics, inflation and deflation, and how Sennholz believes it will all end. This is must reading. Please send for it.

* *

Everybody loves to know what's happening to the gods of show business. At any given time, 95% of those in Actors' Equity are out of jobs, but there's big money for the few biggies. Here's *Forbes'* rundown on money made over the last two years: Oprah Winfrey took in $98 million, Spielberg $72 (these are all in millions), Cosby $66, Guns 'N' Roses $53, Garth Brooks $47, David Copperfield (a magician) $46, Schwarzenegger $47, Prince $49, Kevin Costner $48, Charles Schulz (Peanuts) $48, Michael Jackson $42, Eric Clapton $33, Grateful Dead $33, Siegfried & Roy (Vegas white tiger act) $32. Well, there are a lot more but that will give you some idea of why show business still attracts five million wan-a-bees every year. Oh yeah, I forgot, Madonna and Tom Cruise each made $37 million. Can money buy happiness? Not necessarily, but it does help to pay the bills.

* *

Barry Diller is a hugely talented man who, I believe, wants to be THE media king of the US. Only two major studios are available via stocks, Disney and Paramount. Diller, who used to head Paramount, wants to buy it for a fat $9.5 billion. Furthermore, Diller despises Martin Davis who controls Paramount (Davis fired Diller some years back). If Diller can get Paramount, he will almost surely want to start another network (he built the Fox network). My gut instincts on the situation -- if Diller gets Paramount he will probably make the whole QVC (which Diller runs) and Paramount combination work. But if he gets Paramount and a bear market sets in, the whole thing could end in bankruptcy. The crux of it -- Diller is a very ambitious guy, and power is the name of the game.

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A seat on the NYSE sold a few weeks ago for $775,000. If you want one, the bid is now $700,000 and the offer is an even million. Seat prices tend to go up in a bull market and down in a bear market. If you want one I'd say, "Wait a little while longer, I think they're on the high side now." Here's a note to my old buddy, Wayne Marcus, formerly of Marcus & Co., NYSE. I remember when your dad bought an exchange seat back in 1947 for $70,000 and I thought he was overpaying. Times have changed, right?

* *

When I was a kid they referred to Africa as the "Dark Continent." At the time nobody knew much about it, but I was always fascinated by Martin and Osa Johnson's marvelous movies of wildlife in Africa (Gad, how I'd like to get hold of those great movies again. Does anyone know where they are?). In a lot of ways, Africa is still a dark continent. Consider this -- two million people have died (starved or been killed in the war in Sudan). Every year, four million children under the age of five die in Africa of disease or starvation. One third of Africa's population is undernourished. Half of the world's 15 million AIDS sufferers reside in Africa. The birth rates in many African nations are the world's highest. In Gabon, the average age of the population is 15.

* *

According to London's *Financial Times,* "Europe has become the battleground of the world motor industry in the '90s." The *Times* quotes James Capel, who states that according to UK financial analysts "the first quarter of '93 has been the worst period for earnings (in the European car industry) since the early '80s and possibly for a period much longer than that." There is no increase in demand for cars in the second quarter. The German market, which has been the driving force in Europe, has moved alarmingly into reverse this year. On top of everything else, Japanese vehicle makers will have built a European car capacity of 1.2 million cars by the end of the decade.

43,000 Jobs Will Be Cut By German Auto Giant

Daimler-Benz Plunges To First Loss but Vows To Save 8 Billion DM

By Brandon Mitchener
International Herald Tribune

FRANKFURT — Daimler-Benz AG, Germany's biggest industrial group, said Friday

* *

The *Economist* (Sept. 11) lists the nations which boast the most reliable government statistics. The best are Canada, Australia, Holland, France. The US is sixth on the list. Why so low? "One reason," says the *Economist,* "is the lingering suspicion that statistics in America (and Britain) are subject to political meddling." Russell comment: Funny, I always suspected that.

* *

Japan for decades was known as the nation where nobody ever got fired. When you had a job in a major corporation in Japan, you had a job for life. As you can see by this headline from the *Int. Herald Tribune,* times have changed.

Layoffs Loom In Japan, 40% of Firms Overstaffed

As Many As 1.7 Million 'In-House Unemployed' Weigh Down Profit

By Steven Brull
International Herald Tribune

TOKYO — In a stark warning about the strains in the lifetime employment system, the Labor Ministry said Wednesday that 40 percent of Japanese companies were overstaffed and would be forced to lay off workers over the

* *

The National Football League is in for BIG changes. Next year there will be a salary cap of from $31 to $35 million per team (that's the total that each team is allowed to pay ALL its players). What you're going to see is a premium on lower-priced but talented younger players and a lot of high-priced veteran players looking for jobs. As for high-salaried superstars, their fat pay is going to create a lot of ill-feelings. If a quarterback gets say $4 million a year and a few other featured players get $2 or $3 million, the rest of the guys are going to feel unloved and underpaid. Many teams at present have payrolls far above next year's cap. So look for changes and a massive re-shuffling of players in '94. The day of the dynasty team is over.

* *

For the first time since the '70s, the NFL is offering new franchises. My guess as to where they'll be: St. Louis, if for no other reason than Walter Payton, a black Hall of Famer and a great individual that is part of the St. Louis group. I think the NFL favors St. Louis and would love to have Payton as an owner. Second guess -- the South Will Rise Again (it already has), and Charlotte (home of giant NationsBank) will also have its football team.

* *

Every era has its investment god, and today we have the happy Hungarian, George Soros. Soros is known to jump in and out of a currency or gold at the blink of an eye. But what's this? Now George is moving into US property to the tune of $634 million. What's George thinking about? He must think real estate is cheap, and he must think there's inflation in our future (isn't it always?). At any rate, for what it's worth, Soros is putting a lot of money into real estate. Home owners (particularly battered California home owners) rejoice -- you've got Soros on your side.

Soros moves into US property with $634m Travelers purchase

By Richard Waters in New York

A US property fund set up earlier this year by Mr George Soros and advised by Mr Paul Reichmann, former head of Olympia & York, was close yesterday to completing its first investment, a $634m block purchase of properties from Travelers, the US insurer.

Also yesterday

erties acquired as a result of defaults on commercial mortgages.

Quantum Realty Fund, the Soros US property fund launched in March, was expected to complete the purchase of a block of 47 properties, representing 6m sq ft of commercial space and 6,000 residential units. In a statement

increased in the future by a further securitisation in the form of a real estate investment trust (Reit), Mr Soros said. Reits have enjoyed a boom on Wall Street this year, with share prices of existing companies rising sharply in the first four months and new Reits raising $1.8bn through pub-

* *

Nobody living in the real world believes the inflation statistics put out by the US government. But if you have any kids in college, you know darn well that the government figures are phony. Note this: Three years ago average state college tuition was up 13.4% from the year before. Last year tuition was up 10.4%. This year it is up only 7.6%. I guess you can call that progress, but I still call it inflation . . . As for schools in NYC, I was just looking over average tuition for private (grammar) schools in NYC (do you remember when they called NYC "Fun City"?). Anyway tuition for the tykes runs from $10,000 to $13,000. And there are waiting lines at the better private schools.

* *

By the way, a number of subscribers have asked me, "With taxes going up under Clinton, how can I retain my purchasing power and how will I pay my living expenses?" My answer: "There's really only one way. Make a lot more money than you did last year. If you work for a company, tell the boss you need a raise. If you run your own business, just work harder or tell your wife to ask for a raise. You say all that's impossible. Oh, then when 1996 comes around, vote for anyone but Clinton.

I live in a very, very Republican Congressional district. But darned if my Congressional representative didn't vote for the Clinton program along with its higher taxes. I call that "taxation without representation." I'm putting it in writing right here -- I swear I'd vote for a one-eyed pit bull before I'd vote for my Congresswoman in the next election (sorry, Lynn).

* *

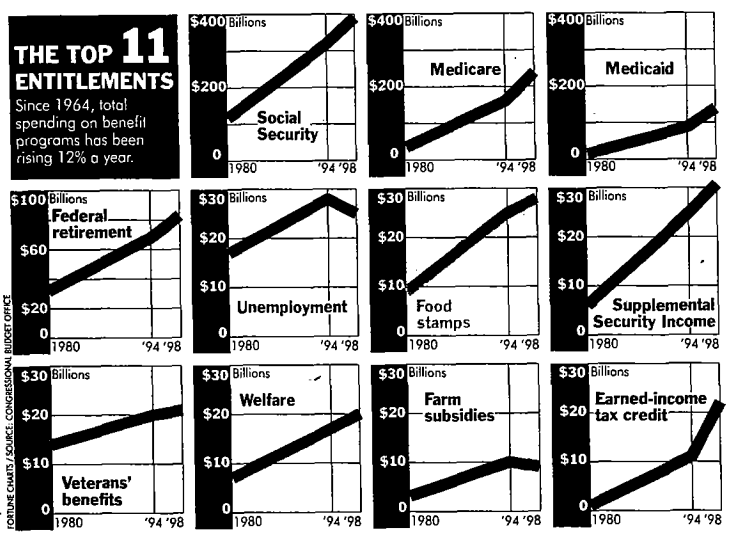
Want to make money in the animal business? Bison? Maybe, but you need a lot of land for these big guys. Llamas? Probably going out of fashion. Ostriches? They're last year's hot item, but hey, one ostrich eggs will make 45 omelets. This year's animal of choice is the lovable, hugable alpaca (they look like llamas but they're furrier). According to the alpaca people, you can get a 74% annual return if you breed alpacas. So there you are, alpacas are "the investment animal of the '90s."

PROBLEMS: I don't usually do this, but I thought the following items were so important that I wanted to cover them in this Letter. The first is an editorial from *Investor's Business Daily* on the new Clinton health-care program. I thought this remarkable editorial got to the heart of the matter.

The second part of this section deals with items out of the October 4 *Fortune* magazine. It presents an extraordinaryly enlightening picture of where we are in the nation. First, study the spending comparisons of 1964 vs. 1974. It's obvious that entitlements and interest on the national debt are eating us up alive. Total federal spending in 1964 was $119 billion. In 1994 it will be $1.497 trillion. Government spending in 1994 will be up over 1964 by well over 1,000 per cent. Savings in the US is now below 4%. And you wonder why the purchasing power of the dollar is collapsing?

Then we see the chart of the top 11 entitlements. This plus interest rates are where we are being eaten up alive. Interest rate costs are compounding as we add a billion a day to the national debt. As for entitlements, look over this chart, and you tell me how or where Washington is going to cut. Each and every entitlement has its political constituents.

Now let government get both feet into the medical picture, and I get that sinking feeling. "Meddling with Medical," it could be the next horror story to come out of Washington. Yep, we've become a



EDITORIAL

Health-Care Sleight Of Hand

The 246-page first draft of President Clinton's health-care reform proposal tells us plenty about the type of people in the White House these days.

The plan reads like a very slick con job, and that should cause every taxpaying American to shudder.

Clinton's minions see no limit to the reach of government into the lives of ordinary Americans. Nor do they tolerate any questioning of the naive belief that government can solve every societal problem.

Far from simply extending health care to the uninsured while slowing health-care inflation, the plan hatched by first lady Hillary Rodham Clinton and her White House tinkerers represents a huge expansion of centralized power.

Every segment of the health-care industry will be pushed, prodded or otherwise managed from Washington.

Under this system, health-care companies will find they are barred from taking steps that improve your care. Instead of answering to a health-care marketplace, companies will answer instead to a new Washington bureaucracy that believes it knows what's best for all of us.

But it's in estimating the costs of the plan that Clinton's team sets new standards in deception.

For example, they tell us, **only 15%** of the money needed to fund this vast expansion of government comes from new taxes. The rest comes from projected savings in other federal health programs — mainly Medicare and Medicaid.

This would be laughable if it weren't so deadly to taxpayers. Medicare and Medicaid have proven impervious to such efforts over the last 20 years, and costs have more than quadrupled, even after taking inflation into account.

Yet Clinton is trying to dupe people into believing his plan will actually save money.

Most of the projected savings come from cuts in reimbursements to hospitals and doctors treating Medicare and Medicaid patients. But the cost of these unreimbursed services will simply be shifted over to the private sector, as they are now.

Government data show that private payers pick up $13 billion in Medicare and Medicaid costs through this cost shift. President Clinton would only make this worse.

And the plan creates new entitlements in each program — such as drug benefits for Medicare — that will further inflate the bill.

But more than this, the proposal demonstrates that Clintonites feel little or no compunction to come clean with the American people. In fact, their arrogance is matched only by their budgetary sleight of hand.

The administration advertises its plan will cut administrative waste and expand benefits while **cutting** health-care spending.

In fact, none of this will come about.

Take the alleged administrative savings. According to the White House draft, at least 25 brand new federal agencies, councils, panels, and programs will be created to administer the plan.

Among them, the National Health Board, the National Quality Management Program, the Data Protection and Security Panel, the Committee on Drug Prices, and a Priority Health Training Program.

In addition, states will have to set up new bureaucracies — called regional health alliances — adding still more bureaucracy and red tape.

As most Americans know, simple federal programs quickly become administrative nightmares. The Clinton plan starts out as an administrative quagmire, and will likely take waste and inefficiency to new levels.

Finally, like the illusory savings in the budget package passed in August, all the health-care savings the Clintonites envision come well in the future, if at all.

Over the next four years, net health-care spending under this reform will climb at least $52 billion, and probably far more. Only in 1999, if all goes well, will the proposed spending cuts outstrip new spending.

Those who remember Gramm-Rudman and George Bush's 1990 budget agreement know all too well they can't trust another tax plan that ramps up spending now and promises savings at some later date.

nation of rights and entitlements. And somebody's got to pay for them. One area where you know we'll pay -- in the purchasing power of the dollar.

GOLD, MONEY: Jim Grant of *Interest Rate Observer* fame writes, *"We must all decide for ourselves if a world of paper money and competitive devaluation is an environment conducive to long-term price stability and permanently low interest rates. If we conclude not, we must decide what to do about it."* Later James states, *"Let us say (as we happen to believe) that government policy worldwide will soon become even more reflationary. If so, the best investment would not be a bond but the opposite of a bond."*

I happen to agree 100 per cent with Jim Grant (his address, by the way, is 30 Wall St., NYC 10005), and I ask myself, "Gosh, let's see, what's the opposite of a bond?" And then I remember, "Oh yes, a bond is a debt instrument that must pay interest. So the opposite might be real money (real money is safe because it has intrinsic value and has no liabilities against it, and therefore it doesn't need to pay interest). They call real money GOLD.

The trouble with paper money is that any government can print it, and then announce that its paper is indeed legal tender. And damned if you can't take this freshly-printed paper and go out and buy valuable gold or silver or gems with it. It really is amazing. What's more amazing is that respect for government has seldom been lower, but people still have confidence in government-sponsored paper.

And you have to wonder, if, for instance, the US government can produce all the debt and paper money it wants, why doesn't it just swap its debt for gold and simply buy up the world's supply of gold? I mean it makes sense, trade something you can print by the carload for a precious metal that has to be dug out of the ground at great cost in capital and labor.

Well, the reasons the government doesn't do what I suggested are multi-fold. First, if they started swapping carloads of paper for gold people would want to know (if gold was such a worthless relic) why our government would prefer gold to paper. Second, if they did that, it would set off a massive boom in the price of gold, and that would tell the world that the value of the dollar (in terms of gold) was collapsing.

The war on gold goes on -- and on. From the front page of *Barron's* (Sept. 20): Alan Abelson writes about one Fed governor who told Randy Forsythe that he (the Fed governor) "had been pushing hard for higher rates to keep gold prices from rising." You still don't believe that Washington and the Fed are fighting a war on gold? Dream on.

Who will win the war? Gold will. Why? Because a truth has more power than a lie. And the truth is that gold is real money and a true store of value whereas paper currencies are legal tender money that can be "manufactured" at will by central banks. No legal tender money has ever served as a store of value for long. It's as simple as that.

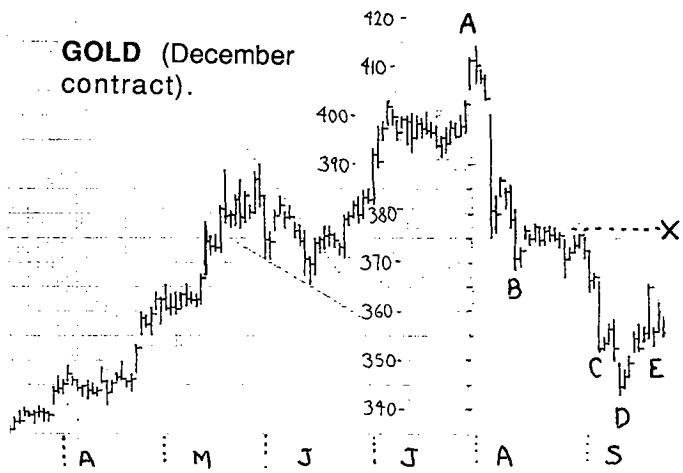
Now a bit of what's actually happening. Steve Briese (*Bullish Review*, 14600 Blaine Ave. East, Rosemount, MN 55068) follows the commitment of traders in the options and futures market. In his latest report Steve notes,*"Commercials have now been accumulating long gold contracts for six straight weeks for a total of 43,000 contracts. This is the largest accumulation we have ever seen in this market. A full 25% of the open interest has moved from weak hands to strong hands in just 6 weeks time . . . This is the largest foray into this market on record and unveils their conclusion that the major trend has turned bullish after 13 years of falling prices. We long ago learned that Commercials are masters at accumulating positions when nobody else wants them."* Russell comment: Commercials are the large fabricators and users, and they generally have a long history of knowing the value of the product they use.

I just talked to long-time friend, Paul Penna, president of Agnico-Eagle (AEAGF, NASDAQ around 12). Paul has good news, and here it is (I also saw the consultant's report). Agnico's new mine or zone shows a gross value (Canadian dollars) of $436 million in gold, $175 million in silver, $31 million in copper and $636 million in zinc for a total of over $1 billion. And there's more to come. I like the stock, and I recommend it -- buy it.

I've been writing that the early stages of a bull market are tough on the nerves. Let me tell you, this gold market is no exception. Up 9.50 on the Russian news, down 9.00 the next day. If you're a trader or a speculator, between gold and the currencies you've probably got gray hair by now. But if you're betting that gold will outlive paper and you've taken a conservative long-term position, you're OK, and just sitting tight.

The daily chart on gold (Dec. contract) is the picture of a battle royal. First the rather explosive rise up to 415 (A on chart). Then the big break down to 375 (B). Next a drop to below 345 (D). Then a little head & shoulders bottom (C-D-E). A pop based on the Russian crisis, a drop back to 355.

From the bull's standpoint, the ideal from here would be a rise to the 377 resistance area (X), a decline of 5 to 10 points, and then a breakout above 377. But one way or the other, I feel that the big picture is that gold is basing here, still preparing for the major bull market to come.



LATE NOTES: If you bought German bonds as suggested earlier, you've been doing well. They're at new highs as German rates slowly decline. Currencies: the yen has topped out and is heading down to maybe 120 to the dollar. Pros like the British pound; I don't. Swissie and D-mark in a trading range, as is the dollar itself . . . Stock market: Really extraordinary amount of "churning" action. The NYSE market keeps testing on the downside, but so far, on all declines there's been no follow-through weakness. The real upside action is now now confined to the NASDAQ . . . Current fad: looking for bargains overseas, particularly in Asia and Eastern Europe . . . Layoffs, add GM, which just announced another 50,000 US pink slips to be issued between now and '96 . . . Fed pumping is finally starting to catch on: M2 money supply was up $6.5 billion last week, broader M3 up $12.5 billion . . . Auto sales rising as are housing starts. Now, watch for rising CRB Index, rising interest rates, rising state and federal taxes plus slowly rising gold, as inflation begins to kick in. As inflation rises, watch for governments to intensify their "war on gold." Question: Forget Washington's phoney inflation statistics, do you know anyone whose total living expenses went down or even stood still this year over last?

I'm feeling good, which is probably why I ran off at the mouth on this Letter -- 8 pages instead of the usual 6. Next time you'll only have to plow through 6 pages, I promise.

NEXT MAILING: Oct. 13, 1993